

BROADWAY-HALE STORES, INC.

AND CONSOLIDATED SUBSIDIARIES

BALANCE SHEET

	February 2, 1974	February 3, 1973
Current assets		
Cash	\$ 10,134,000	\$ 15,408,000
Certificates of deposit	35,000,000	36,150,000
Accounts receivable, net	97,886,000	127,327,000
Reimbursable property costs under sale and lease-back agreements	8,154,000	3,972,000
Merchandise inventories	202,647,000	177,254,000
Prepaid expenses	9,975,000	9,052,000
	363,796,000	369,163,000
Property and equipment	216,092,000	174,535,000
Investments	45,341,000	21,984,000
Total assets	\$625,229,000	\$565,682,000
Current liabilities		
Current installments on long term debt	\$ 8,094,000	\$ 9,775,000
Accounts payable and accrued expenses	96,348,000	80,381,000
Dividends payable	4,321,000	3,895,000
Current income taxes	16,125,000	20,281,000
Deferred income taxes	33,761,000	31,230,000
	158,649,000	145,562,000
Long term debt	136,528,000	119,558,000
Pensions and other long term liabilities	18,848,000	14,381,000
Equity of shareholders		
Preferred stock, \$5 par value (aggregate liquidation preference \$88,940,000)	9,882,000	9,923,000
Common stock, \$5 par value	83,326,000	82,937,000
Other paid-in capital	105,036,000	103,308,000
Accumulated earnings	112,960,000	90,013,000
	311,204,000	286,181,000
Total liabilities and equity of shareholders	\$625,229,000	\$565,682,000

See accompanying Notes to Financial Statements

STATEMENT OF EARNINGS

Fifty-Two
Weeks Ended
Feb. 2, 1974

Fifty-Three
Weeks Ended
Feb. 3, 1973

Net sales	<u>\$1,031,339,000</u>	<u>\$931,049,000</u>
Costs and expenses		
Cost of goods sold	589,575,000	534,861,000
Selling, operating and administrative expenses	280,423,000	254,618,000
Taxes other than income taxes	28,427,000	25,460,000
Rentals of real property	25,547,000	22,293,000
Depreciation and amortization	15,458,000	13,464,000
Interest expense, net	11,794,000	9,432,000
	<u>951,224,000</u>	<u>860,128,000</u>
Earnings before income taxes	80,115,000	70,921,000
Income taxes	40,300,000	35,850,000
Net earnings	<u>\$ 39,815,000</u>	<u>\$ 35,071,000</u>
Per share of common stock	\$2.15	\$1.87
Per share of common stock assuming full dilution	\$1.95	\$1.74

BROADWAY-HALE STORES, INC.

FINANCIAL HIGHLIGHTS

	FEB. 2, 1974	FEB. 3, 1973*
Sales		
First Quarter_____	\$ 216,006,000	\$185,230,000
Second Quarter_____	222,006,000	195,623,000
Third Quarter_____	247,191,000	209,317,000
Fourth Quarter_____	346,136,000	340,879,000
	<u>1,031,339,000</u>	<u>931,049,000</u>
Net Earnings		
First Quarter_____	5,122,000	4,233,000
Second Quarter_____	5,650,000	4,704,000
Third Quarter_____	7,389,000	6,306,000
Fourth Quarter_____	21,654,000	19,828,000
	<u>39,815,000</u>	<u>35,071,000</u>
Per Share of Common Stock		
First Quarter_____	.25	.19
Second Quarter_____	.28	.23
Third Quarter_____	.38	.32
Fourth Quarter_____	1.24	1.13
	<u>2.15</u>	<u>1.87</u>
Per Share of Common Stock Assuming Full Dilution	1.95	1.74
Working Funds _____	238,908,000	254,831,000
Property and Equipment _____	216,092,000	174,535,000
Total Assets _____	625,229,000	565,682,000
Long Term Debt _____	136,528,000	119,558,000
Equity of Shareholders _____	311,204,000	286,181,000

*Year and Fourth Quarter ended February 3, 1973 contain 53 weeks and 14 weeks, respectively.

BROADWAY-HALE STORES, INC.

During fiscal 1973 sales of Broadway-Hale Stores, Inc. exceeded the \$1 billion mark for the first time and profits again reached new record levels. Sales increased 11% to \$1,031,000,000 and profits rose 13.5% to \$39,800,000 for fifty-two weeks compared with fifty-three weeks the previous year.

The company's financial condition, as reflected in the accompanying year-end statements, continues to be strong. On February 21, 1974 Broadway-Hale Credit Corp. sold publicly \$50 million of 7.95% eight-year notes and employed the proceeds to retire term loans. Subsequently two credit agreements aggregating \$70 million, which may be converted into term loans, were arranged with commercial banks. More recently financing of the balance of the 1974-75 \$50 million new store construction program was completed.

Last November Broadway's new flagship store was opened as an integral element of Broadway Plaza, the hotel, office building and retail complex co-developed by this company in downtown Los Angeles. Initial sales have been more than double those of the much larger store which it replaced. Two other major Broadway stores were opened in Phoenix, Arizona and Carson, California last fall and another in Puente Hills near Los Angeles this spring. The first Broadway department stores in Salt Lake City and Tucson will be opened in 1974 and additional Southern California stores in Arcadia and Culver City are under construction.



The internal expansion program of the company's luxury specialty stores is accelerating. Bergdorf's first branch, located in White Plains, New York and containing nearly as much selling space as its Fifth Avenue parent, is scheduled for opening in September. Neiman-Marcus Frontenac will make its debut this fall to serve the St. Louis market and elegant Neiman-Marcus stores are under construction in Washington, D.C. and in the Chicago suburb of Northbrook. Holt, Renfrew is building its first store in Vancouver, British Columbia and enlarging branches in Ottawa, Quebec and Winnipeg.

Last year Walden added 66 book shops and is planning a similar number of new ones this year, which will further enhance its already dominant position among retail book stores of the nation.

The company has recently entered into an agreement, subject to certain conditions, to purchase 20% of House of Fraser which operates 135 large stores estimated to comprise nearly one-quarter of the United Kingdom's department store business including Harrods of London and also owns Illum's of Copenhagen. This interest, representing the largest ownership in House of Fraser, is being acquired from Scottish and Universal Investments Limited which is controlled by Sir Hugh Fraser, under whose direction the stores nearly doubled in sales and tripled in profits during the last eight years. It is contemplated that this transaction, involving approximately \$78 million, will be financed in part by the public sale of additional Broadway-Hale common stock.

With the start of the new year several senior executive appointments have been made. Donn B. Miller, formerly a partner in the law firm of O'Melveny &

Myers of Los Angeles, and Ardern R. Batchelder, former Chairman of the Emporium Capwell Division, have been elected executive vice presidents of the corporation. Mr. Miller assumes a variety of senior corporate responsibilities and Mr. Batchelder maintains general supervision over Emporium, Capwell's, Weinstock's and a new Pacific Northwest Division expected to include a number of locations in the Portland, Seattle, and Tacoma markets. Robert G. Wilhelm, former President of the Emporium Capwell Division, becomes its Chairman and chief executive. Bartley Durant, former President of Weinstock's, has been appointed President of Emporium and J. C. Richardson, Jr., formerly Vice President of Capwell's, has been promoted to the new position of President. Arthur L. Crowe, formerly Vice President of The Broadway, succeeds to the presidency of Weinstock's. Russell Hoyt has become Chairman and chief executive of Walden succeeded as President by Arthur G. Coons, formerly Merchandise Manager of The Broadway.

Two of our valued Directors, having reached the company's retirement age will not be standing for reelection. They are W. P. Fuller Brawner, distinguished San Franciscan, who first joined the Board in 1953, and W. Earl Miller, former Executive Vice President who has made an enormous contribution to the growth and development of the corporation over the past twelve years. To fill the vacancies management proposes Donn B. Miller, 44, who has recently become an Executive Vice President, and Walter J. Salmon, 43, Professor of Marketing at the Harvard Business School and one of the nation's leading authorities on retail distribution.

During the first two months of the new fiscal year operating results compare favorably with the record levels of last spring and the outlook for sales and profits during the balance of 1974 appears good.

We should like to take this opportunity to express our gratitude to our more than 13,000 shareholders and 34,000 employees for their continuing splendid support.

Respectfully submitted,

Edward W. Carter

EDWARD W. CARTER,
Chairman of the Board

Philip M. Hawley

PHILIP M. HAWLEY,
President

Prentis C. Hale

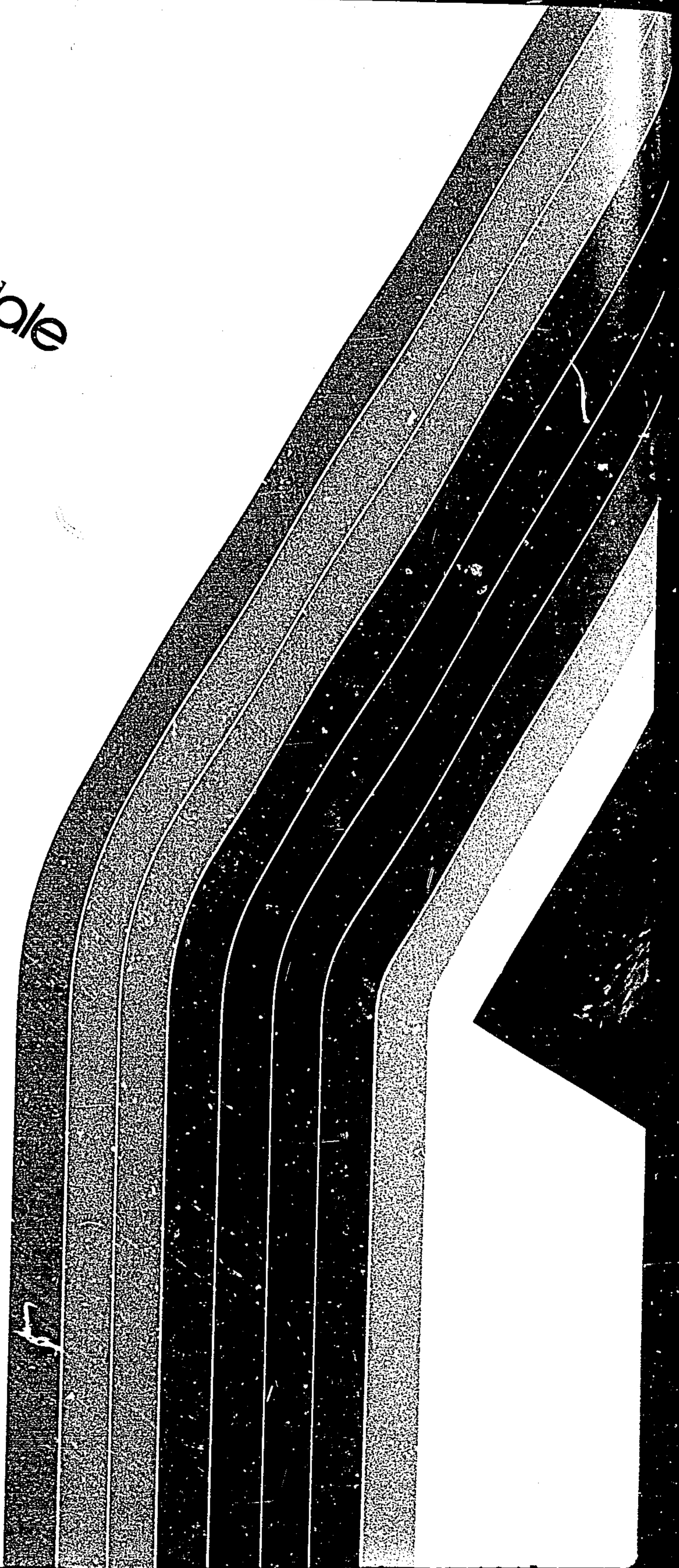
PRENTIS C. HALE,
Chairman, Executive Committee

April 15, 1974

Carter Hawley Hale Stores, Inc.

Carter Hawley Hale Stores, Inc. will become the new corporate name subject to shareholder approval at the annual meeting May 30, 1974. The existing name, Broadway-Hale Stores, Inc., was selected in 1951 to reflect the merger of Broadway Department Store, Inc., of Southern California with Hale Bros. Stores, Inc., of Northern California. Since that time, the corporation has expanded its business and operations to 40 states and Canada and plans to become truly international in scope in the near future. In addition to the Broadway, the Company now represents many of the finest and best known names in retailing—The Emporium, Capwell's and Weinstock's, among department stores; Neiman-Marcus, Bergdorf Goodman and Holt, Renfrew, among high fashion specialty stores as well as Walden Books and Sunset House.

In view of changes which have occurred and plans for the future, the Board of Directors has determined that the name Broadway-Hale, which is identified with only one division of the Company, is confusing and no longer appropriate. Accordingly, after lengthy study, the Board has recommended the new name of Carter Hawley Hale Stores, Inc., thereby identifying the company with the executives who have been instrumental in the development of the corporation to its present dimension. Names of the operating divisions and retail stores will remain unchanged. With shareholder approval, the Company will initiate a corporate identification program to strengthen communications and broaden investor awareness of the Company.

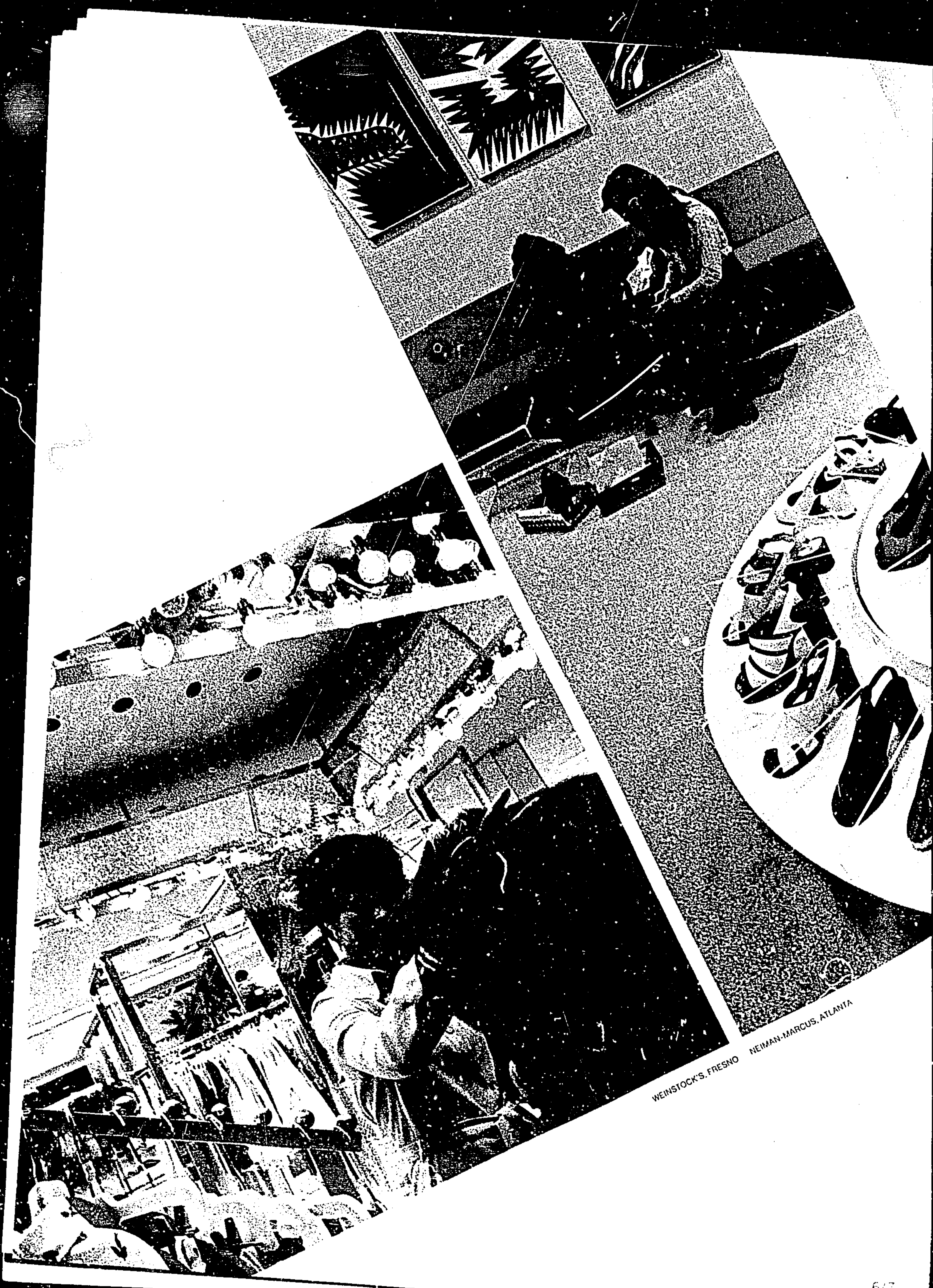




HOLT, RENFREW, MONTREAL

NEIMAN-MARCUS, DALLAS





WEINSTOCK'S, FRESNO NEIMAN-MARCUS, ATLANTA

BROADWAY-HALE STORES, INC.

Having passed the significant \$1 billion milestone in sales, it is appropriate to focus on Broadway-Hale's dynamic plans for further growth over the balance of the decade, encompassing all divisions of the company.

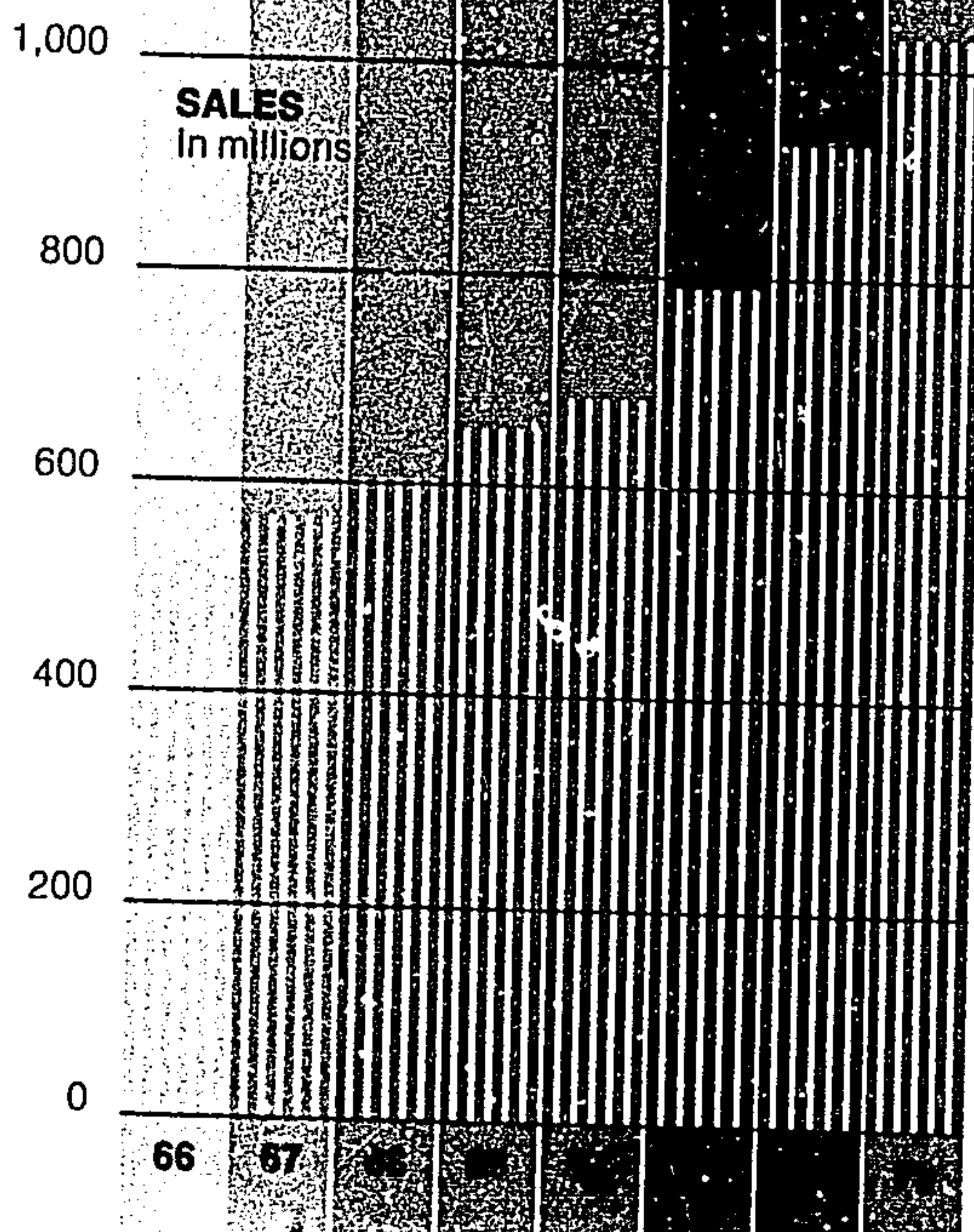
People are the most important part of successful growth, and Broadway-Hale has placed increased emphasis on management recruitment and development programs in all operating divisions of the company as well as corporate headquarters. The company takes great pride in the quality and dedication of the executives who operate its divisions and considers them to be among the most outstanding in the industry. Development programs under way are being followed with the objective of maintaining the already high level of management competence now in place.

Recognizing an opportunity in the Pacific Northwest, the company has decided to develop a new operating division to operate stores being planned for the Portland, Seattle and Tacoma markets. Given the stability and growth pattern of this entire area, together with its adjacency to the company's strong operations in California, it is felt that great potential for expansion exists, and that this can best be accomplished through the structuring of a division which will concentrate on serving the particular needs and preferences of the customers in this region.

The company has recently announced the proposed acquisition of a 20% interest in House of Fraser, the largest department store group in the United Kingdom, which will represent a major investment in retailing in one of the leading firms of Western Europe.

Based on the growing number of middle and upper income families, with rising levels of taste and disposable income, plans call for opening more than 30 department stores and over 20 luxury specialty stores by 1980. In addition, something over 200 new book stores will open, and Sunset House has plans involving new dimensions for both their direct mail and retail businesses.

In addition to new stores which will add to the company's square footage by

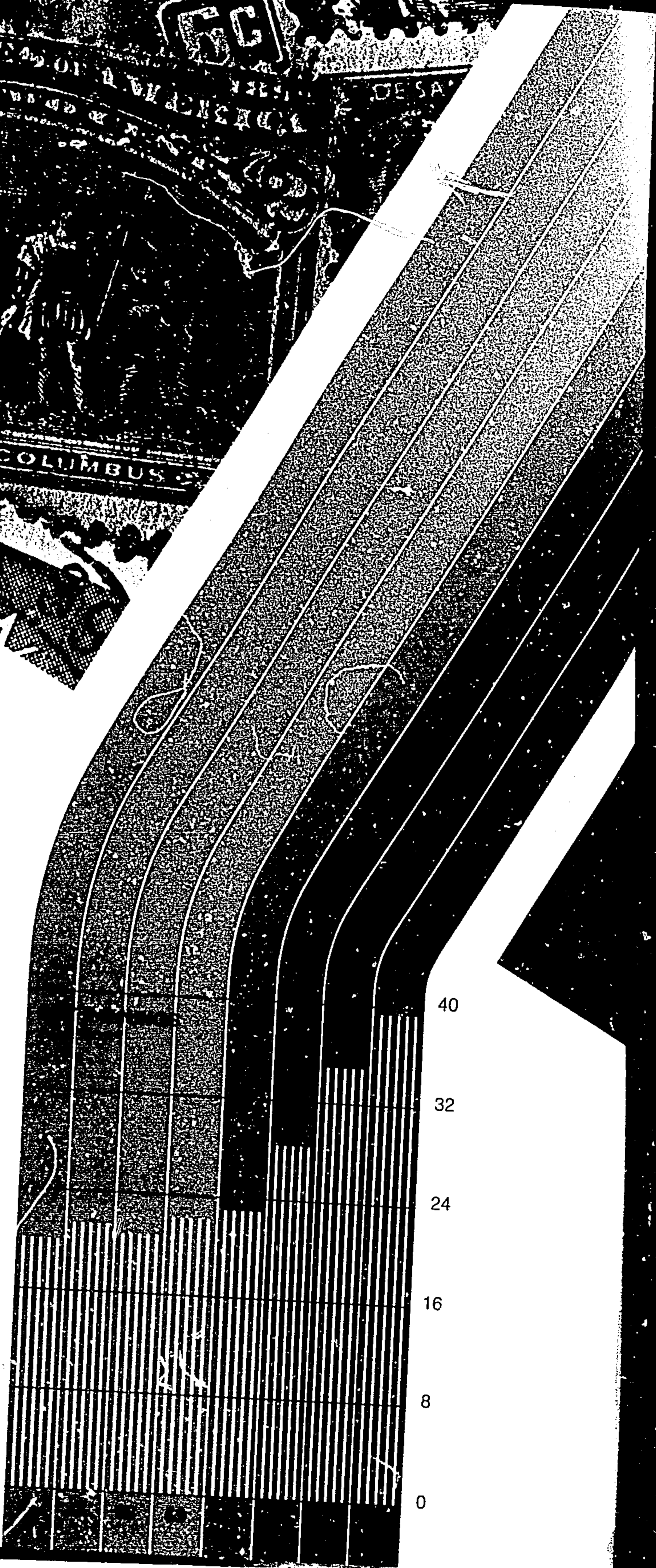




over 50%, programs have been implemented to increase the share of market enjoyed by existing units of the company, and these will be vigorously pursued. Additional volume achieved in existing units by virtue of these programs predicts to be an important profit contributor in years to come.

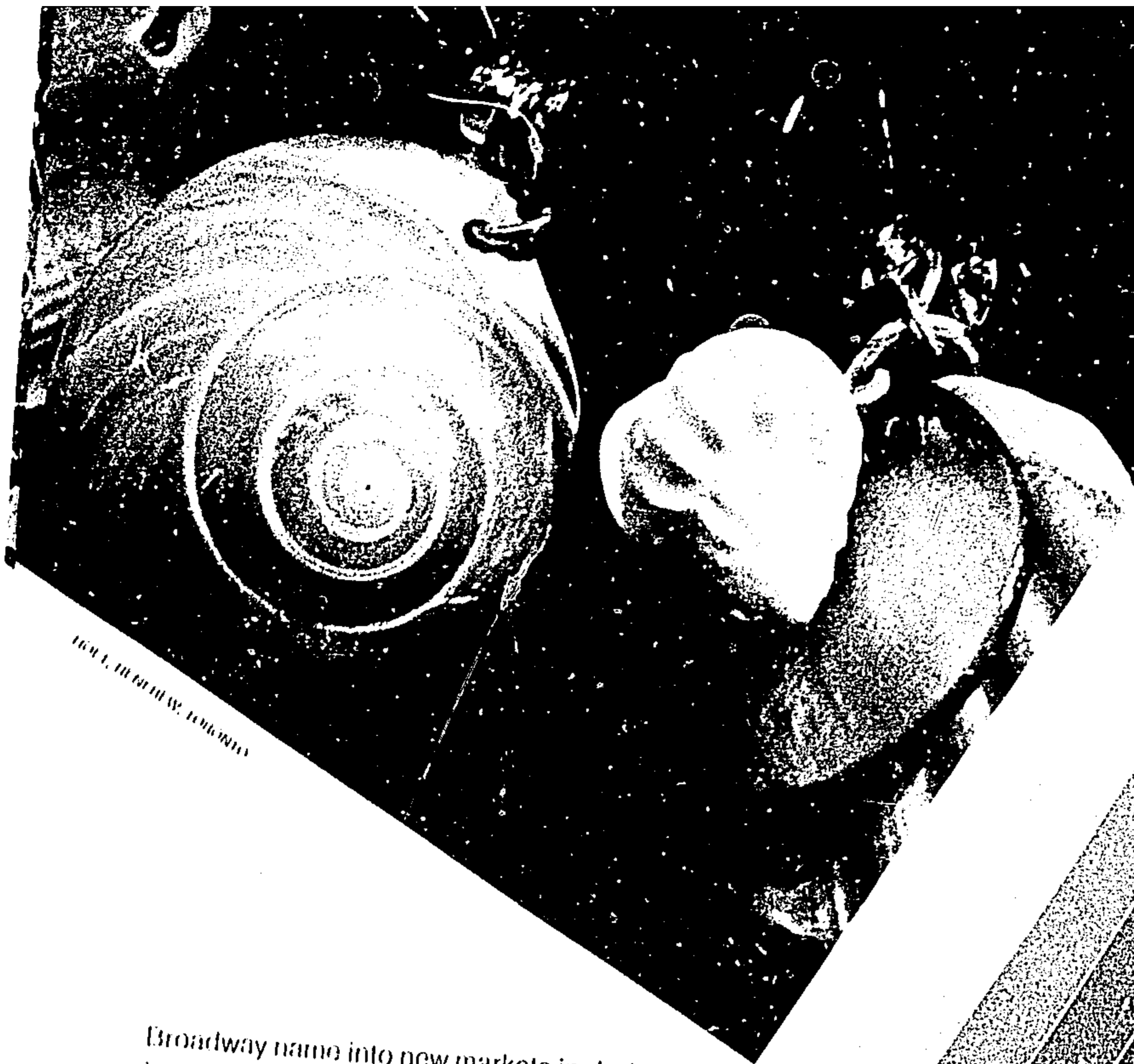
For the Broadway Division, 1973 was a landmark year, highlighted by the November opening of the Broadway Plaza, the first new department store in the Los Angeles downtown area in more than 50 years. The Broadway occupies a major portion of a business complex developed as a joint venture by the company, consisting of 50 specialty shops, a 550-room hotel and a 32-story office building. From the day it opened, the flagship store has received enthusiastic public acceptance.

By no means content with the stores in operation at year-end, the Broadway division plans an accelerated pace of new store openings over the balance of the decade. Extensive market research has identified at least 20 potential opportunities for new Broadway stores. In addition to further expansion in areas currently served, plans call for extending the





BERGDORF GOODMAN, NEW YORK



ROBERT G. WILHELM, President, Emporium Capwell

Broadway name into new markets including Tucson, Arizona, Salt Lake City, Utah, and Albuquerque, New Mexico.

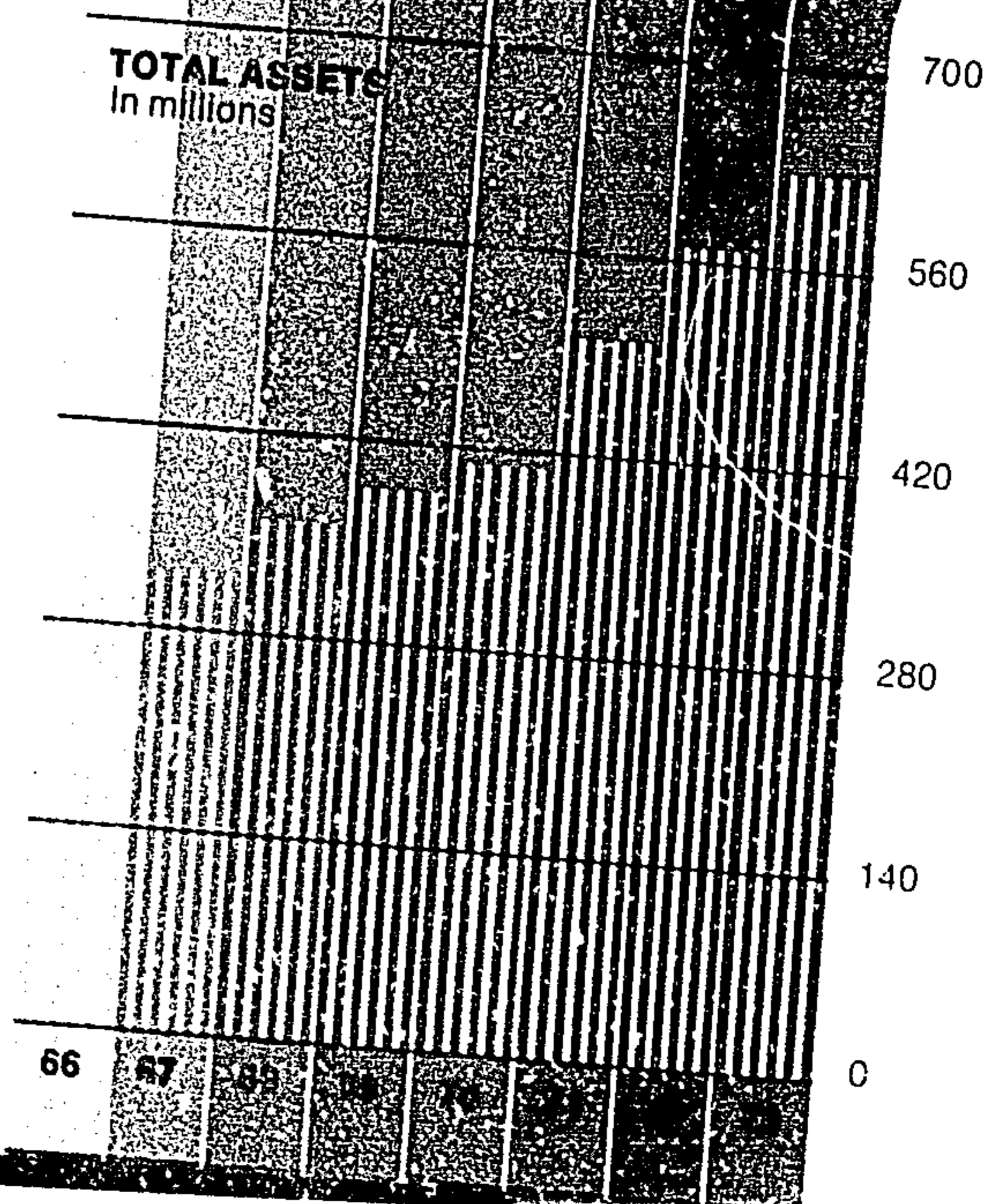
"Our objective is sound expansion, well-researched marketing decisions and stores that are profitable. But we will grow qualitatively as well as physically in the decade of the seventies by being even more sensitive to our customers' demands in both merchandise and services than ever before."

J. HART LYON, Chairman, The Broadway

In Northern California, The Emporium and Capwell's stores continue to enjoy their position as the dominant general department stores in the San Francisco Bay area as they have for many years. Long known for broad merchandise selections and values, the division plans increased emphasis on fashions and store environment in designing its new stores as well as in the constant renovation of its existing stores.

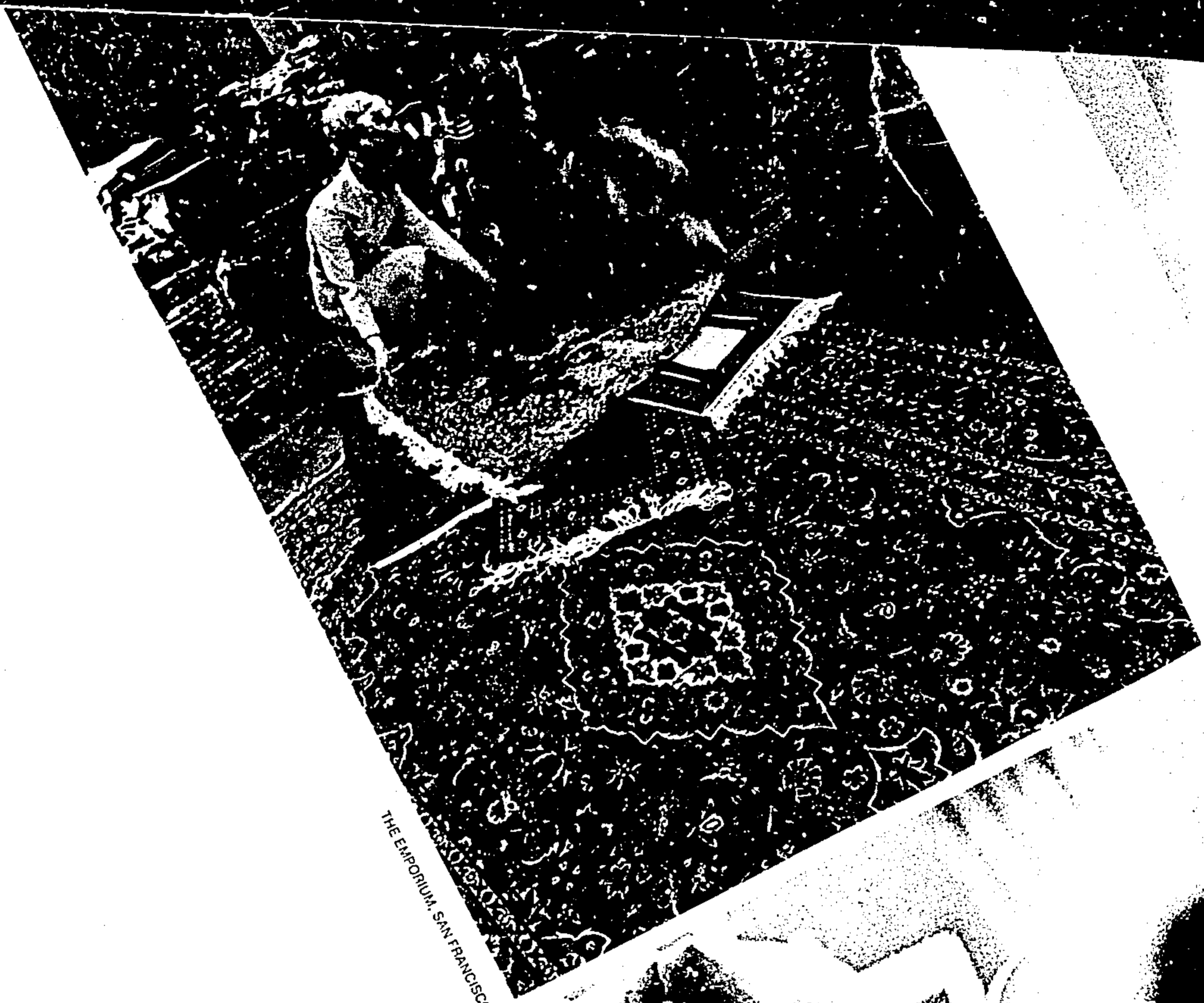
"We have plans for five additional Emporium and Capwell's stores in the San Francisco area and the East Bay. We look for continued upgrading in every phase of our Emporium and Capwell's operations, for it is only through internal growth that we can maintain our profitability."

ROBERT G. WILHELM, President, Emporium Capwell





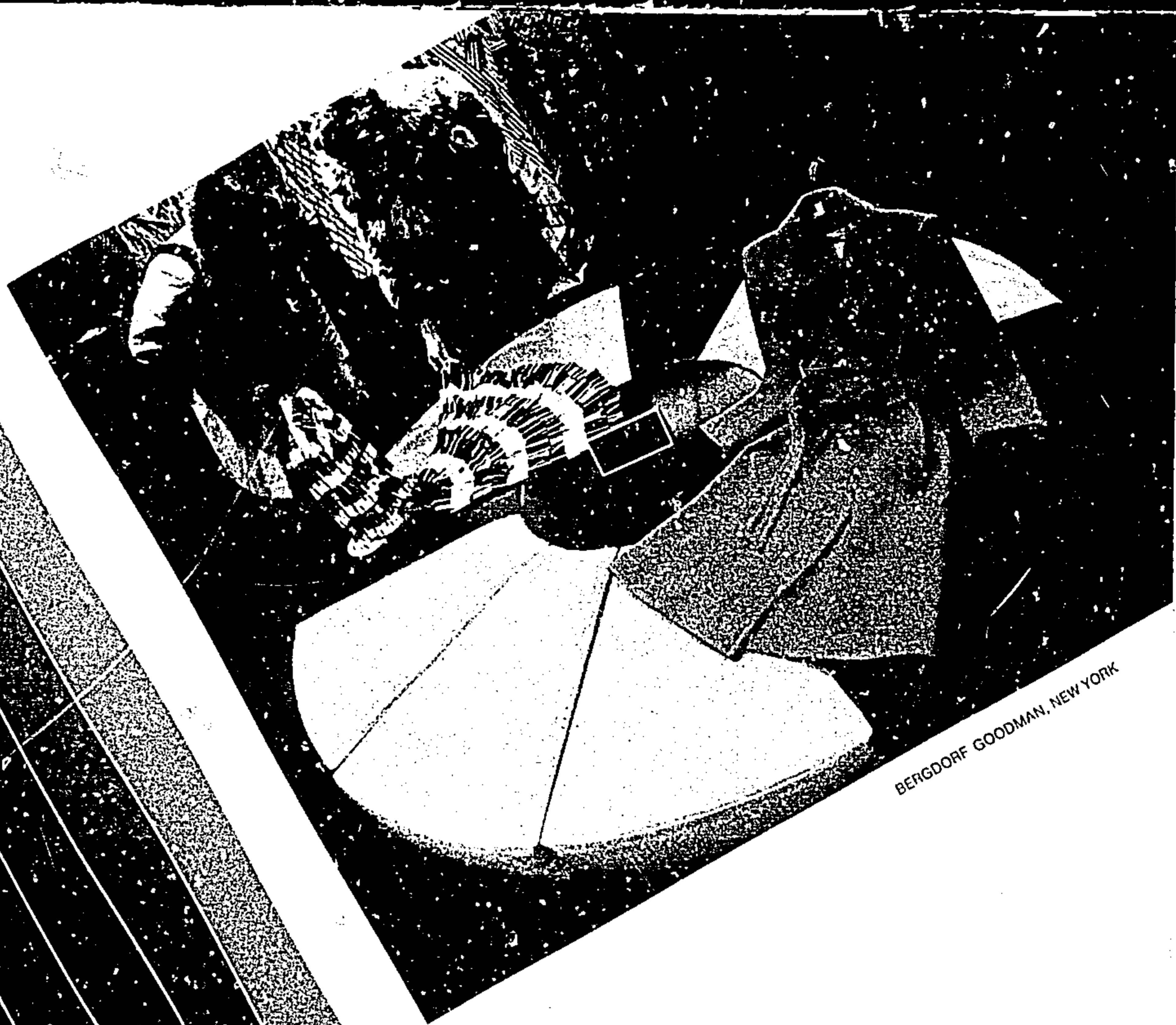
NEIMAN-MARCUS, DALLAS



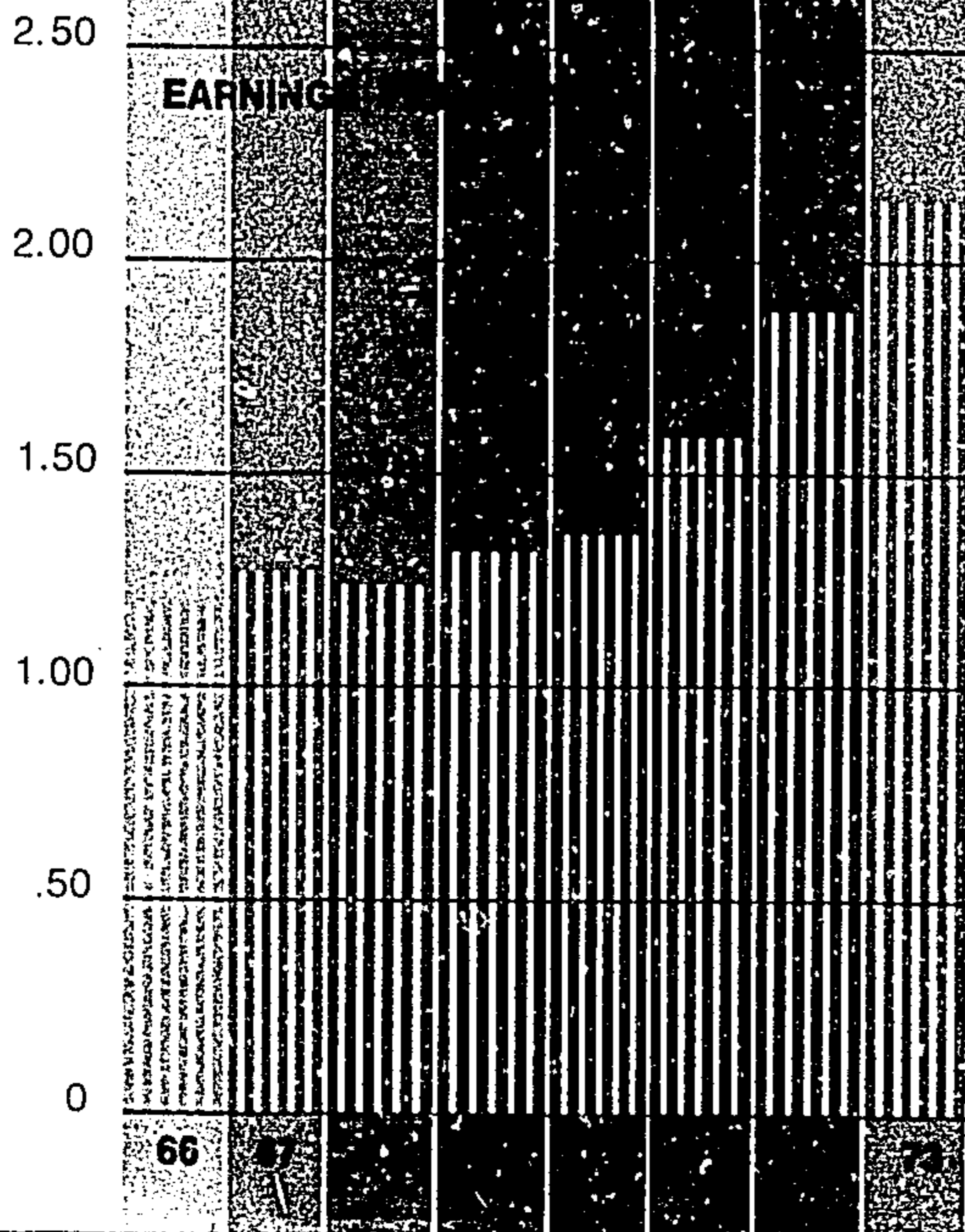
THE EMPORIUM, SAN FRANCISCO



HOLT, RENÉ-REW, MONTREAL



BERGDORF GOODMAN, NEW YORK



The effective response to changing buying patterns by a home-based merchandising staff constitutes the basic quality which has maintained Weinstock's leadership in its nine department stores in the Central Valley of California and in Reno.

While celebrating its centennial year in 1974 Weinstock's is embarking on a continuing program to increase the productivity of existing stores and planning new stores within its marketing area. "Weinstock's is the quality department store operation in Central California and will grow by a well-balanced program that will extend over the decade. We intend to broaden our appeal by adding to our home and decorative classifications in addition to entering other viable markets that would welcome our quality with new stores."

BARTLEY S. DURANT, President, Weinstock's

With the opening of the St. Louis store in 1974, Neiman-Marcus will have seven outstanding stores in four states. By the close of the decade, Mr. Marcus foresees twenty stores serving the affluent markets of ten or more states.

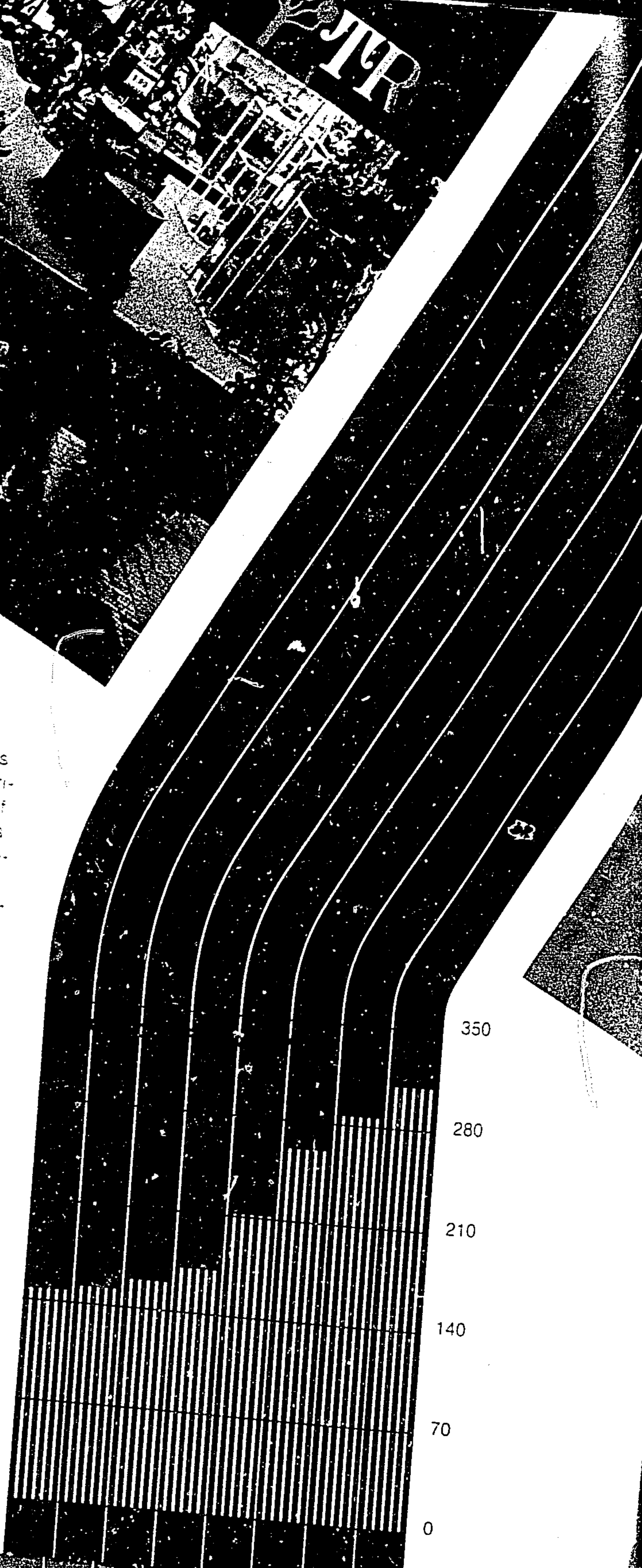
The essence of a Neiman-Marcus



store has always been to give customers a memorable and pleasurable experience through the physical statement of each store, and to present in its stores and in its world famous catalog a carefully edited selection of fine merchandise in the most appealing fashion. This objective—to offer quality merchandise in an elegant setting — will be honored in every future Neiman-Marcus operation. "Our growth will eventually be from Washington, D.C. to the West Coast as we more than double the number of our stores by the end of the seventies and work toward tripling our operations in the 1980's. We start out today with much bigger store sales and a greater volume potential. We also enter new markets with an intangible, yet highly productive asset: the Neiman-Marcus name."

STANLEY MARCUS, Chairman,
Neiman-Marcus

Bergdorf-Goodman — New York's unchallenged authority in high quality fashion for three quarters of a century — laid the groundwork in 1973 for future expansion. A complete men's clothing and coordinated apparel department was added. Physical growth commenced with the construction of Bergdorf's second store, scheduled to open in White





BERGDORF GOODMAN, NEW YORK

NEIMAN-MARCUS, ATLANTA



STREET VIEW - 1970

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BERGDORF GOODMAN, NEW YORK

Walden

Walden Books

WALDENBOOKS . LOS ANGELES

25

NUMBER
STORE U

20

15

10

5

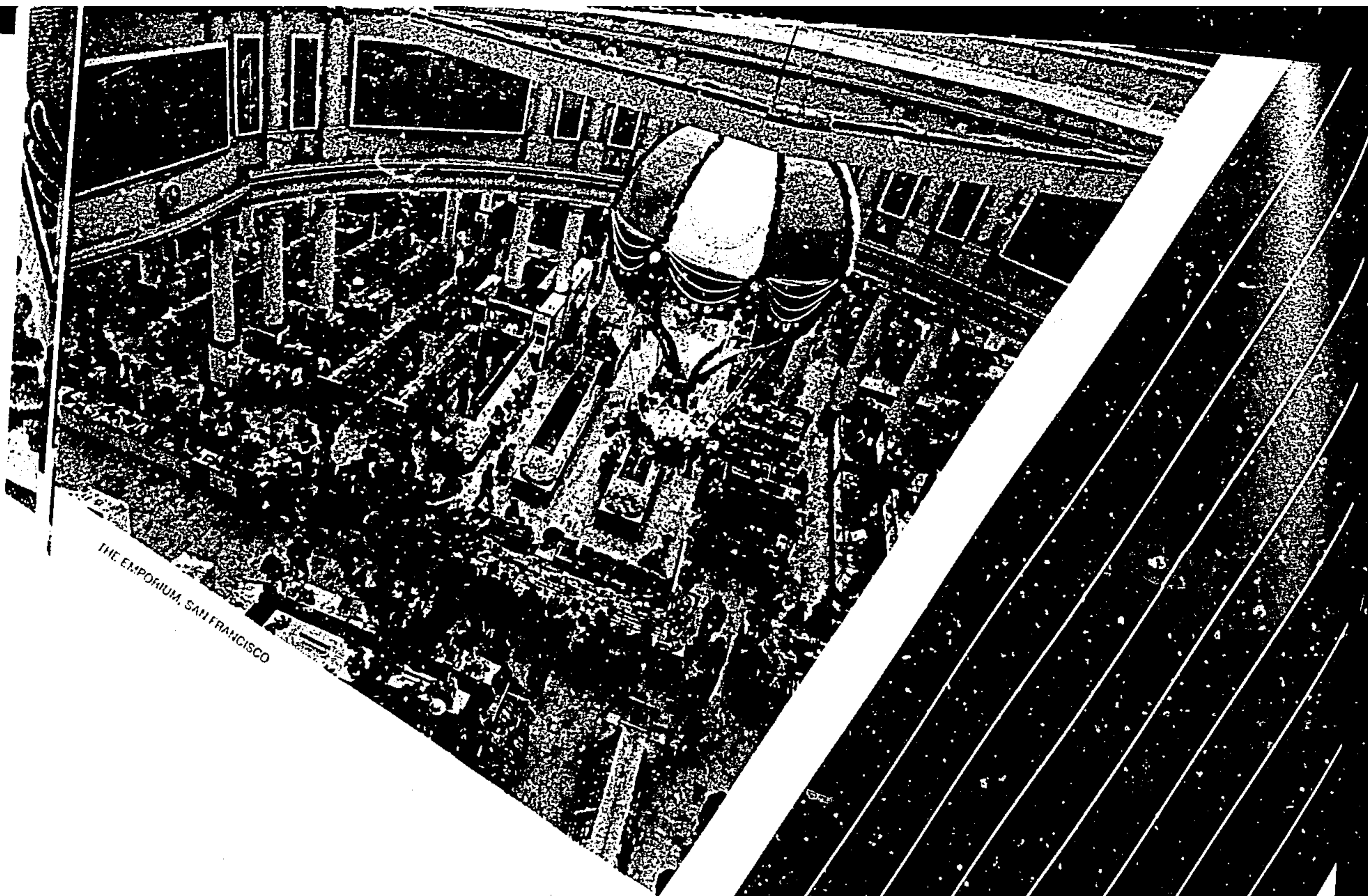
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Plains in September, 1974 which will restate those ingredients that are the hallmark of the original store in Manhattan: a mood of luxury, coupled with the highest level of service. All plans for broadening this division's operations are being meticulously calculated to ensure that the Bergdorf commitment to quality and discrimination will be met in each new environment. Currently the division is analyzing market opportunities in the greater New York area and the Northeast. *"Our merchandise mix may broaden, but our standards will never change. We receive constant reaffirmation that good taste, as we express it, knows no geographical limitations. White Plains is a pilot for what we see as a series of Bergdorf Goodman stores appealing to the American appetite for beautiful things, superior service and gracious shopping, a hunger that grows larger every year."* ANDREW GOODMAN, President, Bergdorf Goodman.

Holt, Renfrew—Canada's finest group of fashion specialty stores—will extend across the continent from coast to coast with the opening of its large new store in Vancouver, B.C. early in 1975. This will



THE EMPORIUM, SAN FRANCISCO

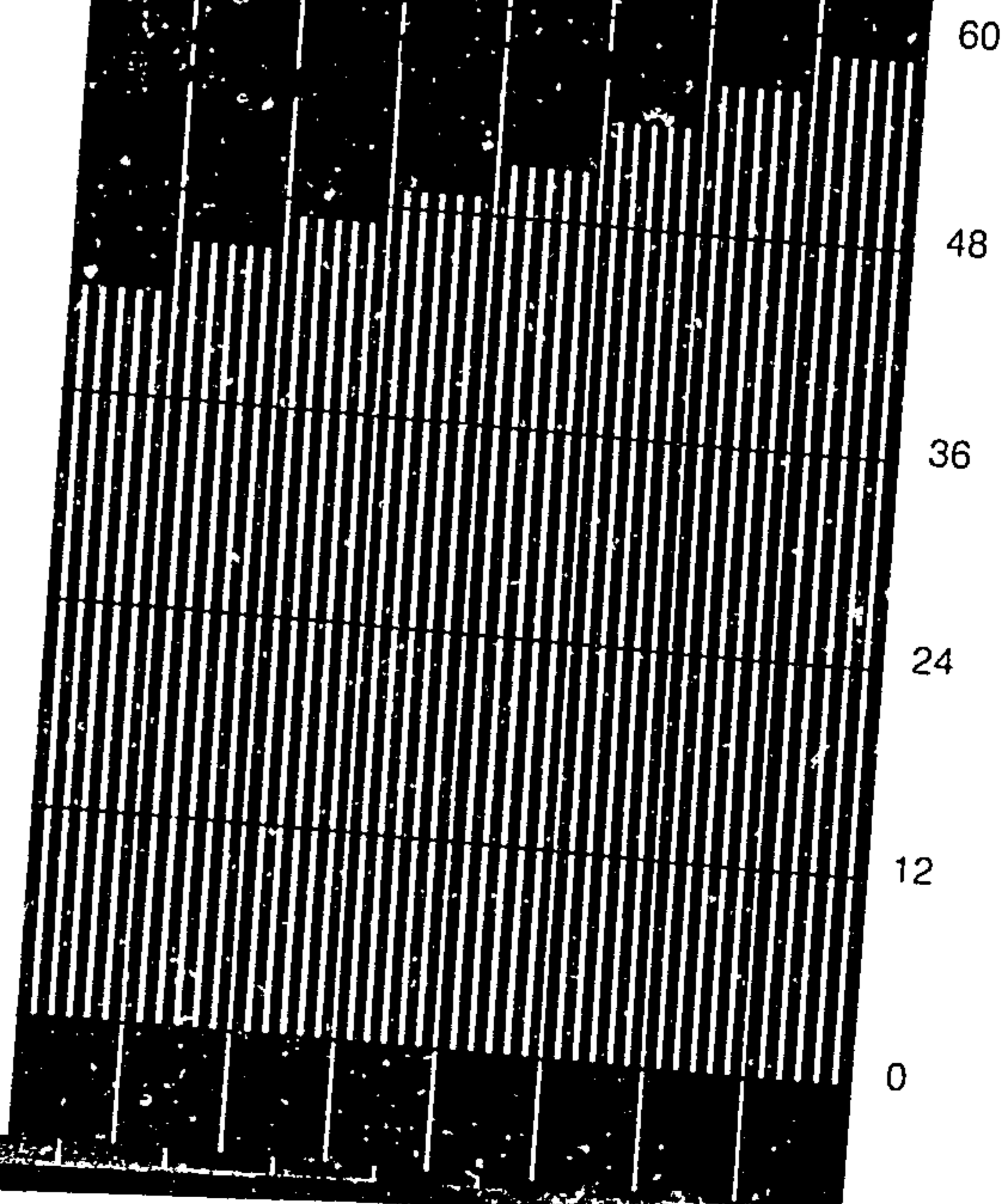
bring to 20 the number of Holt, Renfrew stores serving eight of the nine metropolitan centers of Canada.

New departments featuring fine gifts and luggage which were well received by customers in both the Montreal and Toronto stores are being expanded to other stores during 1974. At the same time, Holt's is studying the potential of other merchandise additions to broaden the sales mix and attract a wider market.

Negotiations are already in progress for enlargement and relocation of a number of the division's major properties. The end of the decade will see Holt, Renfrew realizing its full potential based on broadened merchandise assortments and substantially improved facilities.

"We're moving in the direction of broader selection, more departments... there's a myriad of merchandise open to us... more moderately-priced items at no sacrifice of quality. We're restructuring our stores, redefining our customers, seeking new markets and widening our appeal to the buying public. These are our missions for the balance of the decade."

LENARD M. SHAVICK, President,
Holt, Renfrew





NEUMAN, MARCUS HOUSTON



Walden Book Company, the largest book retailer in the United States, extended its geographical reach in 1973 by launching 66 new stores, bringing its total operations to 318 stores in 40 states.

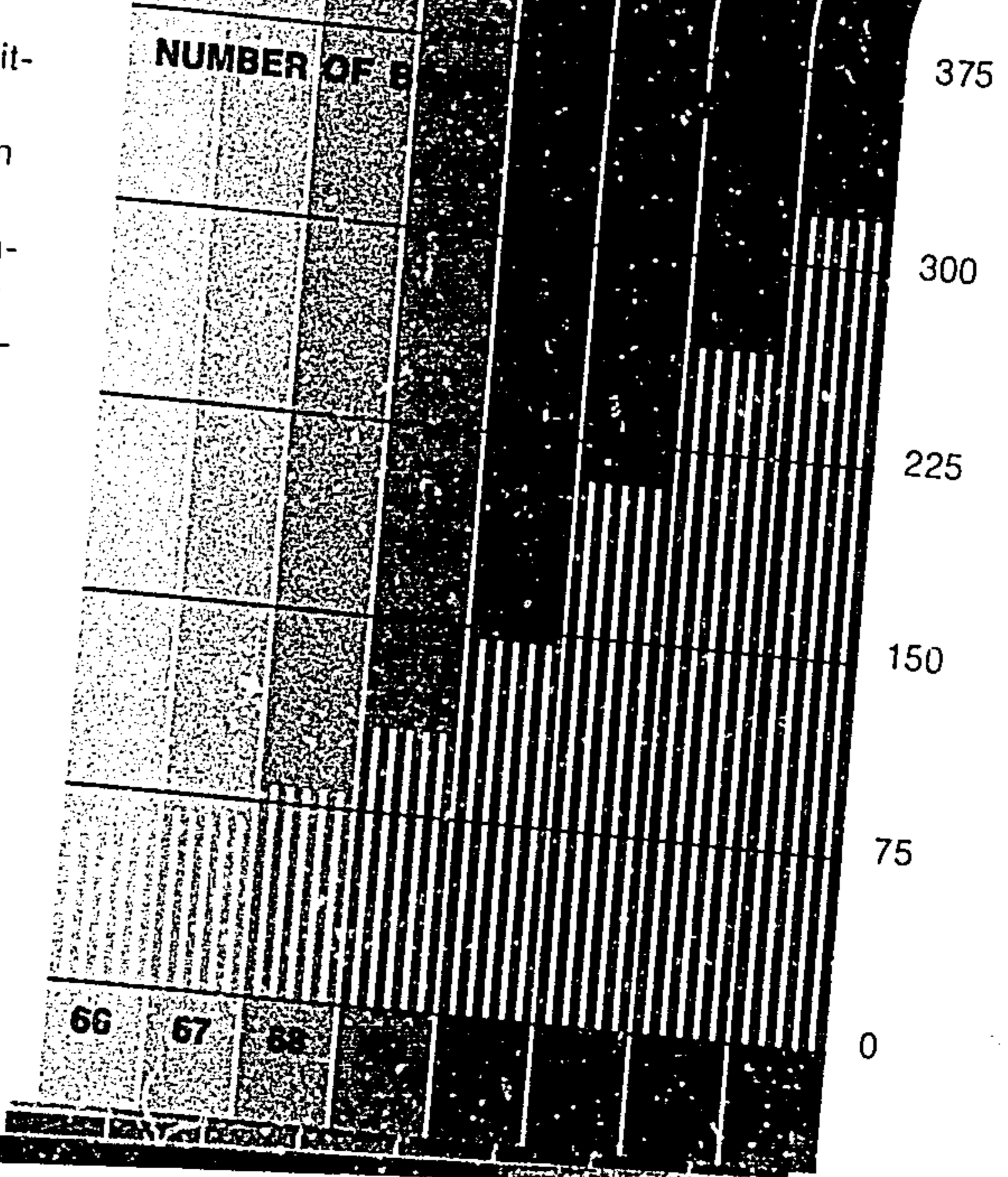
Walden's leadership in book retailing is attributable to three primary factors:

1. A wide inventory reflecting current reading tastes.
2. An emphasis on fast-moving profitable selections.
3. A heavy sales promotion program utilizing all media.

Although Walden will continue to concentrate primarily on major shopping malls, a number of new downtown locations were also added last year, and more are planned for the future.

"For the remainder of the seventies we will open a substantial number of new stores concentrating on prime locations in major regional shopping centers throughout the country. By the end of the decade, Walden will have more than 500 retail units serving the public. With the change in spending habits, we note that books are taking a larger proportion of the consumer's dollar every year."

RUSSELL L. HOYT, Chairman,
Walden Book Company



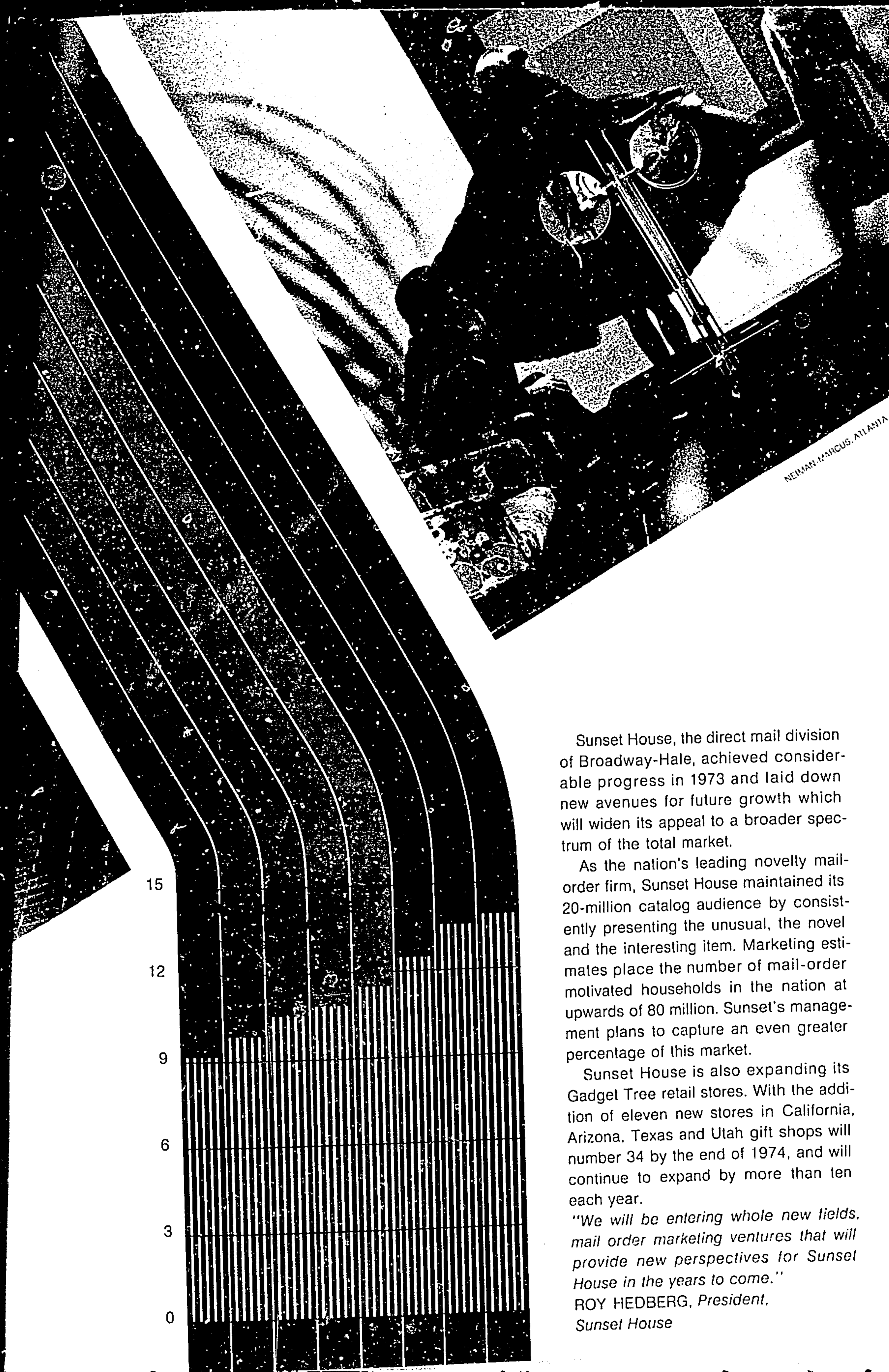


BERGDORF GOODMAN, NEW YORK
NEWMAN-MARCUS, DALLAS

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THE BROADWAY, LOS ANGELES



Sunset House, the direct mail division of Broadway-Hale, achieved considerable progress in 1973 and laid down new avenues for future growth which will widen its appeal to a broader spectrum of the total market.

As the nation's leading novelty mail-order firm, Sunset House maintained its 20-million catalog audience by consistently presenting the unusual, the novel and the interesting item. Marketing estimates place the number of mail-order motivated households in the nation at upwards of 80 million. Sunset's management plans to capture an even greater percentage of this market.

Sunset House is also expanding its Gadget Tree retail stores. With the addition of eleven new stores in California, Arizona, Texas and Utah gift shops will number 34 by the end of 1974, and will continue to expand by more than ten each year.

"We will be entering whole new fields, mail order marketing ventures that will provide new perspectives for Sunset House in the years to come."

ROY HEDBERG, President,
Sunset House

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AND CONSOLIDATED SUBSIDIARIES

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AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF SHAREHOLDERS' EQUITY	Shares Issued		Par Value		Other Paid-In Capital	Accumu- lated Earnings
	Preferred Stock	Common Stock	Preferred Stock	Common Stock		
	Dollar Amounts in Thousands					
Balance January 29, 1972, restated	2,012,720	11,098,786	\$10,064	\$55,494	\$129,375	\$ 70,432
Net earnings						35,071
Cash dividends on common stock, \$.69 per share						(11,375)
Cash dividends on preferred stock, \$2 per share						(4,031)
Issued in 3 for 2 common stock split		5,386,876		26,934	(26,934)	(84)
Sale of common stock under employee stock options		54,325		272	963	
Conversion of preferred stock	(28,180)	47,346	(141)	237	(96)	
Balance February 3, 1973	1,984,540	16,587,333	9,923	82,937	103,308	90,013
Net earnings						39,815
Cash dividends on common stock, \$.775 per share						(12,915)
Cash dividends on preferred stock, \$2 per share						(3,953)
Common stock issued in land acquisition		58,184		291	1,666	
Sale of common stock under employee stock options		6,000		30	89	
Conversion of preferred stock	(8,103)	13,671	(41)	68	(27)	
Balance February 2, 1974	<u>1,976,437</u>	<u>16,665,188</u>	<u>\$ 9,882</u>	<u>\$83,326</u>	<u>\$105,036</u>	<u>\$112,960</u>

See accompanying Notes to Financial Statements

**STATEMENT OF CHANGES
FINANCIAL POSITION**

Fifty-Two
Weeks Ended
Feb. 2, 1974

Fifty-Three
Weeks Ended
Feb. 3, 1973

Source of funds

Net earnings	\$ 39,815,000	\$ 35,071,000
Depreciation and amortization	15,458,000	13,464,000
Deferred income taxes	7,222,000	2,548,000
Working funds provided from operations	62,495,000	51,083,000
Properties sold or to be sold under lease-back agreements	21,101,000	23,000,000
Issuance of long term notes	25,250,000	3,022,000
Sale of convertible debentures		35,000,000
Issuance of common stock	2,076,000	1,235,000
Funds previously reserved for investment		12,000,000
Other sources	1,383,000	1,925,000
	<u>112,305,000</u>	<u>127,265,000</u>

Use of funds

Cash dividends	16,868,000	15,406,000
Property additions	78,117,000	41,789,000
Payments on long term notes	8,280,000	14,152,000
Excess of cost of purchased subsidiaries over equity in net assets		6,738,000
Investments in real estate joint ventures	12,662,000	
Investment in Broadway-Hale Credit Corp.	10,256,000	983,000
Other uses	2,045,000	1,325,000
	<u>128,228,000</u>	<u>80,393,000</u>
Increase (decrease) in working funds	<u>\$ (15,923,000)</u>	<u>\$ 46,872,000</u>

Increase (decrease) in working funds by components

Cash	\$ (5,274,000)	\$ 2,797,000
Certificates of deposit	(1,150,000)	36,150,000
Accounts receivable	(29,441,000)	6,869,000
Reimbursable property costs	4,182,000	(6,262,000)
Merchandise inventories	25,393,000	27,861,000
Prepaid expenses	923,000	449,000
Current installments on long term debt	1,681,000	4,085,000
Accounts payable and accrued expenses	(15,967,000)	(12,086,000)
Dividends payable	(426,000)	(183,000)
Current income taxes	4,156,000	(12,808,000)
Increase (decrease) in working funds	<u>\$ (15,923,000)</u>	<u>\$ 46,872,000</u>

Working funds consist of current assets less current liabilities excluding current deferred income taxes.

See accompanying Notes to Financial Statements.

BROADWAY-HALE STORES, INC.

AND CONSOLIDATED SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

Summary of significant accounting policies:

BASIS OF REPORTING—The consolidated financial statements include the accounts of the Company and all subsidiaries other than Broadway-Hale Credit Corp. Intercompany items are eliminated and earnings of Broadway-Hale Credit Corp. before income taxes have been deducted from interest expense.

SALES—Profits on installment sales are taken into income at the time such sales are made. Net sales include sales of leased departments and credit service charges.

MERCHANDISE INVENTORIES—Merchandise inventories are stated at the lower of cost or market as determined by the retail method applied on a first-in, first-out basis.

PROPERTIES—Carrying costs, including interest and real estate taxes, are included in construction in progress and land held for future development. Maintenance and repairs are charged to income and renewals and betterments of a permanent nature are charged to the property and equipment accounts. The cost of assets sold or retired is eliminated from the property and equipment accounts, the accumulated depreciation is eliminated from the reserve accounts, and any gain or loss is taken into income. Fully depreciated assets are charged against the related accumulated depreciation accounts although such assets may still be in service.

DEPRECIATION AND AMORTIZATION—Depreciation and amortization is provided on the straight-line method over the estimated useful lives of the various facilities or over the lives of the related leases if such periods are shorter.

DEFERRED CHARGES—Store opening and pre-operating costs are charged to selling, operating and administrative expense during the year of the store opening. The excess of the cost of purchased subsidiaries over the underlying equity at the date of acquisition is amortized on a straight-line basis over a period of 40 years.

INCOME TAXES—The Company provides currently for income taxes applicable to all items included in the earnings statement regardless of when such taxes are payable. Deferred taxes shown as a current liability result from income on installment sales which is deferred for tax purposes. Tax allocations related to noncurrent items result principally from accelerated depreciation and other differences relating to property items and pension costs and are included in other long term liabilities. Income taxes are reduced for investment tax credits using the flow-through method.

PENSIONS—Retirement benefits are provided to employees of the Company and its subsidiaries under a number of pension and profit sharing plans. Most pension costs, including profit sharing contributions, are currently funded. Costs of pension and related profit sharing plans are computed under an accepted actuarial method and include amounts necessary to provide for current service costs, amortization of past service costs principally over a period of 40 years and interest on all unfunded amounts.

EARNINGS PER SHARE — Earnings per share of common stock is computed on the basis of the weighted average number of shares and dilutive stock options outstanding during the year after recognition of preferred dividend requirements. Fully diluted earnings per share of common stock is computed on the assumption that all of the outstanding convertible debentures and preferred stock were converted into common stock at the beginning of the year or later date of issuance, eliminating interest, net of tax, on the convertible debentures and preferred dividend requirements.

Business combinations: As of January 31, 1972, the Company purchased a Canadian retailer, Holt, Renfrew & Co., Limited and a related company for \$14,100,000. The results of operations of these companies are included in the statement of earnings from date of acquisition. In June 1972, the Company, through a newly formed subsidiary, merged with Bergdorf & Goodman Company by exchange of 337,500 shares of its common stock. This transaction has been accounted for as a pooling of interests.

In March 1974, the Company announced that an agreement had been reached, subject to certain conditions, to purchase 20% of the voting shares of House of Fraser Limited, a department store business in the United Kingdom, for cash of approximately \$78,000,000. The Company plans to issue up to 2,000,000 shares of its common stock for cash in connection with this proposed purchase.

	February 2, 1974	February 3, 1973
Accounts receivable:		
Customer receivables	\$225,924,000	\$202,035,000
Other receivables	6,144,000	5,397,000
	<u>232,068,000</u>	<u>207,432,000</u>
Accounts sold to Broadway-Hale Credit Corp., net of retained equity of \$14,526,000 and \$8,527,000	130,737,000	76,740,000
Allowance for doubtful accounts	3,445,000	3,365,000
	<u>134,182,000</u>	<u>80,105,000</u>
	<u>\$ 97,886,000</u>	<u>\$127,327,000</u>
 Property and equipment, at cost less accumulated depreciation and amortization:	 February 2, 1974	 February 3, 1973
Land	\$ 15,834,000	\$ 14,934,000
Buildings and improvements	101,597,000	94,419,000
Lease improvements	44,027,000	35,322,000
Fixtures and equipment	129,564,000	105,965,000
Construction in progress and land held for future development	24,234,000	10,079,000
	<u>315,256,000</u>	<u>260,719,000</u>
Accumulated depreciation and amortization	99,164,000	86,184,000
	<u>\$216,092,000</u>	<u>\$174,535,000</u>

BROADWAY-HALE STORES, INC.

AND CONSOLIDATED SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

Investments:

	February 2, 1974	February 3, 1973
Investment in Broadway-Hale Credit Corp.		
Investments in and advances to real estate joint ventures	\$ 22,172,000	\$ 10,820,000
Excess of cost of purchased subsidiaries over equity	12,662,000	
Other investments at cost	8,400,000	8,575,000
	4,103,000	3,494,000
	<u>\$ 45,341,000</u>	<u>\$ 21,924,000</u>

Income taxes: Federal, including Canadian (less than 5% of total income taxes), and state income tax expense includes the income taxes of Broadway-Hale Credit Corp. and consists of:

	Fifty-Two Weeks Ended February 2, 1974	Fifty-Three Weeks Ended February 3, 1973
Taxes currently payable —		
Federal, net of investment credits of \$1,353,000 and \$900,000		
State	\$ 22,077,000	\$ 25,844,000
	5,001,000	4,356,000
	<u>33,078,000</u>	<u>33,392,000</u>
Deferred taxes —		
Federal		
State	6,345,000	2,156,000
	576,000	392,000
	<u>7,222,000</u>	<u>2,548,000</u>
	<u>\$ 40,300,000</u>	<u>\$ 35,850,000</u>

The differences between the U.S. federal income tax rate of 46% and the effective total tax rates of 50.3% and 50.5% for 1973 and 1972, respectively, are due principally to state income taxes offset in part by investment credits. Noncurrent deferred income taxes included in other long term liabilities at February 2, 1974 and February 3, 1973 were \$6,600,500 and \$1,509,000, respectively.

Short term borrowings: The Company and Broadway-Hale Credit Corp. share \$125,500,000 of unsecured lines of credit with 22 banks at the prime rates of interest of the lending banks. These lines, as a matter of policy, are used to support commercial paper borrowings of the companies. At February 2, 1974, \$68,635,000 of the lines were available for future borrowings. On the basis of informal understandings with the banks, the companies maintain cash balances which support lines of credit and business operations. During the fifty-two weeks ended February 2, 1974, such balances averaged approximately \$11,000,000.

The maximum amount of short term debt outstanding at any month end during the fiscal year ended February 2, 1974 by the Company was \$32,500,000, the approximate average aggregate short term debt outstanding was \$17,200,000 and the approximate weighted average interest rate was 9 3/4% computed on the basis of daily balances.

Interest expense for fiscal years 1973 and 1972 shown on the statement of earnings has been reduced by interest income of \$3,759,000 and \$1,492,000, and earnings of Broadway-Hale Credit Corp. before income taxes of \$3,686,000 and \$2,045,000, respectively.

Long term debt: Debt maturing more than one year after the balance sheet date is comprised of:

	February 2, 1974	February 3, 1973
4¼ %-4¾ % Notes due 1975-84	\$ 23,390,000	\$ 26,506,000
5%-6½ % Notes due 1975-93	15,845,000	20,552,000
7½ % Notes due 1975-2003	27,293,000	2,500,000
8¼ % Sinking Fund Debentures due 1977-1996	35,000,000	35,000,000
Total senior debt	101,528,000	84,558,000
4¾ % Convertible Subordinated Debentures due 1987	35,000,000	35,000,000
	<u>\$136,528,000</u>	<u>\$119,558,000</u>

The notes payable at February 2, 1974 include \$31,378,000 secured by property carried at \$31,095,000. Principal maturities of the notes payable in each of the next five fiscal years are \$8,094,000, \$4,016,000, \$5,246,000, \$3,699,000 and \$4,292,000, respectively.

The indenture related to the 8¼ % Sinking Fund Debentures provides for a sinking fund for the retirement in May of each year beginning with 1977 of not less than \$1,750,000 principal amount.

The 4¾ % Convertible Subordinated Debentures are convertible into the Company's common stock at \$41.50 per share.

Pensions: The cost of pension and related profit sharing plans for the year ended February 2, 1974 was \$5,196,000 and for the prior year was \$4,650,000. The actuarially computed value of vested benefits under all plans, primarily for past service, exceeded the total of pension funds and accruals by approximately \$8,400,000 at the most recent valuation dates.

Lease commitments: Most of the department stores are occupied under leases which generally provide for fixed rentals, require payment of property taxes and insurance and are for terms of 30 years with renewal options at reduced rates. Book and gift shops, principally located in shopping centers, are occupied under leases with initial terms ranging from 10 to 20 years providing for minimum and additional rentals based on sales. In addition, fixtures in some of the Company's stores are leased for periods through 1980.

Total rentals charged to earnings for fiscal years 1973 and 1972 were \$31,877,000 and \$28,356,000, respectively. These include fixture and equipment rentals of \$6,330,000 and \$6,063,000 and rentals based on sales of \$2,182,000 and \$1,712,000, respectively.

The minimum lease commitments as of February 2, 1974 under noncancelable leases (primarily for real property) payable in each of the succeeding five years is approximately \$26,200,000 and in each of the next three five-year periods and the remainder after 1993 are \$111,584,000, \$95,026,000, \$77,642,000 and \$106,000,000, respectively.

Certain of the Company's leases, defined as financing leases, have terms which are believed to assure the lessor full recovery of the fair market value of the property at the inception of the lease plus a reasonable return on such value. Rentals on financing leases included in total rental expense for fiscal

BROADWAY-HALE STORES, INC.

AND CONSOLIDATED SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

years 1973 and 1972 were \$17,430,000 and \$16,246,000, respectively. The minimum lease commitments as of February 2, 1974 under financing leases payable in each of the succeeding five years is approximately \$17,800,000 and in each of the next three five-year periods and the remainder after 1993 are \$74,324,000, \$67,772,000, \$60,596,000 and \$82,254,000, respectively. The present values of the aggregate minimum lease commitments under financing leases at February 2, 1974 and February 3, 1973 were \$183,297,000 and \$172,834,000, respectively. Interest rates under such leases range from 4% to 9 $\frac{1}{2}$ % with a weighted average interest rate of approximately 6 $\frac{3}{8}$ %. On the assumption that all financing leases had been capitalized, the related property rights amortized on a straight-line basis over the initial term of the lease and interest expense computed on the present value of the outstanding lease liability, and after giving effect to the related income tax effects, the impact on 1973 net earnings would not have been material.

Contingencies: Several actions are pending against the Company in California in which damages are claimed on the theory that the Company's finance charges on retail installment accounts exceed legal limitations and violate contractual provisions. Similar actions have been brought against many oil companies and retail stores in California. Although claims under such actions are substantial in relation to the Company's net worth, in the opinion of counsel to the Company in these actions, the actions are without merit and any recovery that would materially affect the Company's financial condition is unlikely.

Equity of shareholders: Authorized preferred stock consists of 5,000,000 shares, \$5 par value, of which 2,012,667 shares were designated \$2 Convertible Preferred Stock. Each share of the outstanding preferred stock provides for cumulative annual dividends of \$2, is convertible at any time into 1.6675 shares of common stock, is subject to redemption on or after April 1, 1976 at \$47, decreasing at the rate of \$.50 a year to \$45, and has a \$45 involuntary liquidation preference.

On May 25, 1972, the shareholders of the Company, by approving Amended Articles of Incorporation, increased the authorized shares of common stock, \$5 par value, from 20,000,000 to 42,000,000 and authorized a three-for-two split of the common stock, effective May 31, 1972. At February 2, 1974, 4,176,610 shares of the Company's common stock were reserved for issuance upon conversion of outstanding convertible securities and 661,450 shares were reserved under the employee stock option plan.

Under the stock option plan, key employees may be granted options to purchase the common stock of the Company at not less than 100% of fair market value on the date of option grant. Options are exercisable after one year but not after five years from date of grant. At February 3, 1973, options for 195,200 shares were outstanding and during 1973 options for 94,000 shares were granted at prices of \$32.69 and \$35.50 per share. At February 2, 1974, options for 279,450 shares were outstanding, at prices ranging from \$19.75 to \$35.50, of which options for 64,200 shares were exercisable.

Accumulated earnings of \$112,920,000 at February 2, 1974 includes \$66,162,000 which is available for cash dividends under terms of the Company's debt agreements.

Broadway-Hale Credit Corp: Broadway-Hale Credit Corp. purchases certain accounts receivable of the Company from which substantially all of its revenue is obtained, principally by discounts in amounts sufficient to cover its fixed charges at least one and one-half times. On February 21, 1974, Broadway-Hale Credit Corp. sold in a public offering \$50,000,000 of 7.95% Notes due 1982 in a refinancing of long term bank debt. In January 1974, the Company made a capital contribution to Broadway-Hale Credit Corp. of \$8,500,000. Net earnings of Broadway-Hale Credit Corp. were \$1,756,000 in 1973 and \$983,000 in 1972. A condensed balance sheet of Broadway-Hale Credit Corp. is shown below:

	February 2, 1974	February 3, 1973
Assets		
Customer accounts purchased from Broadway-Hale Stores, Inc. less 10% withheld pending collection and settlement of discount_____	\$130,737,000	\$76,740,000
Cash and other assets_____	790,000	411,000
	<u>\$131,527,000</u>	<u>\$77,151,000</u>
Liabilities and Investment of Broadway-Hale Stores, Inc.		
Notes payable_____	\$ 56,665,000	\$13,850,000
Accrued liabilities_____	2,686,000	1,381,000
Long term debt_____	50,000,000	50,000,000
Investment of Broadway-Hale Stores, Inc._____	22,176,000	11,920,000
	<u>\$131,527,000</u>	<u>\$77,151,000</u>

The complete financial statements of Broadway-Hale Credit Corp. are contained in its 1973 Annual Report, which is available upon request.

**To the Directors and Shareholders of
Broadway-Hale Stores, Inc.**

In our opinion, the accompanying balance sheet and the related statements of earnings and shareholders' equity and of changes in financial position present fairly the financial position of Broadway-Hale Stores, Inc. and its consolidated subsidiaries at February 2, 1974 and February 3, 1973, and the results of their operations and the changes in financial position for the fiscal years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Los Angeles, California
March 29, 1974

Pricewaterhouse & Co.

BROADWAY-HALE STORES, INC.

AND CONSOLIDATED SUBSIDIARIES

Financial Summary In thousands	1973	1972*	1971	1970	1969	1968	1967*	1966
Sales _____	\$1,031,339	\$931,049	\$787,667	\$680,475	\$656,713	\$603,878	\$568,159	\$523,656
Earnings								
Before income taxes_____	80,115	70,921	57,690	47,648	48,070	45,508	43,350	39,494
Federal and state income taxes_____	40,300	35,850	29,015	24,561	25,922	24,377	21,477	18,881
Net earnings_____	39,815	35,071	28,675	23,087	22,148	21,131	21,873	20,613
Per common share								
Net earnings	2.15	1.87	1.59	1.36	1.33	1.26	1.28	1.19
Assuming full dilution_____	1.95	1.74	1.52	1.33	1.31	1.25	1.28	Anti- dilutive
Dividends_____	.78	.69	.67	.63	.59	.59	.55	.53
Depreciation and amortization _____	15,458	13,464	11,732	9,888	9,069	8,250	7,647	7,605
Capital expenditures _____	78,117	41,789	53,412	48,227	21,431	37,609	34,057	34,309
Year end statistics								
Common shares outstanding_____	16,665	16,587	16,479	15,014	15,014	15,014	14,718	13,791
Preferred shares outstanding_____	1,976	1,985	2,013	2,013	1,113	1,113	1,113	1,113
Number of common shareholders_____	10,442	10,085	9,665	9,184	9,160	9,036	8,439	8,779
Store area (square feet)_____	13,903	13,647	12,447	11,468	10,760	10,513	9,770	9,208
Number of employees_____	34,000	32,000	27,000	24,000	22,600	22,400	20,900	20,000
*Fifty three weeks								

In thousands	Feb. 2, 1974	Feb. 3, 1973	Jan. 29, 1972	Jan. 30, 1971	Jan. 31, 1970	Feb. 1, 1969	Feb. 3, 1968	Jan. 28, 1967
Assets								
Cash and equivalents_____	\$ 45,134	\$ 51,558	\$ 12,611	\$ 9,710	\$ 12,488	\$ 10,760	\$ 12,658	\$ 9,042
Accounts receivable_____	228,623	204,067	187,319	170,677	165,972	149,289	137,103	129,847
Accounts receivable sold_____	(130,737)	(76,740)	(66,861)	(83,102)	(49,900)	(49,928)	(49,578)	(29,905)
Reimbursable property costs_____	8,154	3,972	10,234	15,380	8,722	3,047	7,463	15,612
Merchandise inventories_____	202,647	177,254	149,393	123,387	109,065	107,062	94,426	86,714
Prepaid expenses_____	9,975	9,052	8,603	6,206	6,985	6,293	6,335	5,081
Current assets_____	363,796	369,163	301,299	242,258	253,332	226,523	208,407	216,391
Property and equipment_____	216,092	174,535	169,210	149,853	126,673	127,761	104,189	93,043
Investments_____	45,341	21,984	25,599	12,753	2,777	4,098	4,991	4,196
	<u>\$625,229</u>	<u>\$565,682</u>	<u>\$496,108</u>	<u>\$404,864</u>	<u>\$382,782</u>	<u>\$358,382</u>	<u>\$317,587</u>	<u>\$313,630</u>
Liabilities and equity								
Current liabilities_____	\$158,649	\$145,562	\$121,381	\$110,660	\$116,688	\$102,081	\$ 84,322	\$100,799
Long term debt_____	136,528	119,558	95,688	70,919	84,128	87,943	75,698	59,199
Other long term liabilities_____	18,848	14,381	13,674	11,378	11,042	8,491	9,058	6,991
Equity of shareholders_____	311,204	286,181	265,365	211,907	170,924	159,867	148,509	146,641
	<u>\$625,229</u>	<u>\$565,682</u>	<u>\$496,108</u>	<u>\$404,864</u>	<u>\$382,782</u>	<u>\$358,382</u>	<u>\$317,587</u>	<u>\$313,630</u>
Working funds _____	\$238,908	\$254,831	\$207,959	\$154,664	\$153,485	\$137,975	\$134,576	\$127,458

BROADWAY-HALE STORES, INC.

DIRECTORS

EATON W. BALLARD, Executive Vice President of Broadway-Hale.

NORMAN BARKER, JR., Chairman of the Board of United California Bank.

ARDERN R. BATCHELDER, Executive Vice President of Broadway-Hale.

K. WADE BENNETT, Executive Vice President of Broadway-Hale.

W. P. F. BRAUNER, Retired former President of W. P. Fuller & Co.

EDWARD W. CARTER, Chairman of the Board of Broadway-Hale.

ROBERT Di GIORGIO, Chairman of the Board of DiGiorgio Corporation.

ANDREW GOODMAN, President of Bergdorf Goodman, Inc.

PRENTIS C. HALE, Chairman of the Executive Committee of Broadway-Hale.

STANTON G. HALE, Chairman of the Board of Pacific Mutual Life Insurance Company.

HONORARY DIRECTORS

R. GWIN FOLLIS
NEWTON J. HALE
CHARLES S. HOBBS

PHILIP M. HAWLEY, President of Broadway-Hale.

J. HART LYON, Chairman of the Broadway Division

EDWARD S. MARCUS, Consultant

STANLEY MARCUS, Vice President of Broadway-Hale and Chairman of the Neiman-Marcus Division.

W. EARL MILLER, Consultant.

RUDOLPH A. PETERSON, Administrator of United Nations Development Programme.

FRANK H. SLOSS, Partner in law firm of Heller, Ehrman, White & McAuliffe.

E. HORNSBY WASSON, Chairman of the Board of Stanford Research Institute.

ROBERT G. WILHELM, Chairman of the Emporium Capwell Division.

ROBERT A. HORNBY
ROY L. SHURTLEFF
CHARLES S. THOMAS

OFFICERS

EDWARD W. CARTER, Chairman of the Board

PHILIP M. HAWLEY, President

PRENTIS C. HALE, Chairman of the Executive Committee

EATON W. BALLARD, Executive Vice President

ARDERN R. BATCHELDER, Executive Vice President

K. WADE BENNETT, Executive Vice President

DONN B. MILLER, Executive Vice President

E. JOHN CALDECOTT, Vice President and Secretary

PAUL E. CHEVALIER, Vice President

STANLEY MARCUS, Vice President

HOWARD N. WEST, Vice President and Treasurer

DENNIS L. WORRELL, Vice President

COMMON AND PREFERRED STOCK

Listed on
New York Stock Exchange
Pacific Stock Exchange
Ticker Symbol BHS

TRANSFER AGENTS AND REGISTRARS

Security Pacific National Bank,
Los Angeles
The First National City Bank of New York

INDEPENDENT ACCOUNTANTS

Price Waterhouse & Co.

GENERAL COUNSEL

O'Melveny & Myers

EXECUTIVE OFFICES

600 South Spring Street,
Los Angeles 90014

ANNUAL MEETING

The annual meeting of shareholders
will be held at the Mark Hopkins Hotel,
One Knob Hill in San Francisco, California
on Thursday, May 30, 1974.